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C O N F I D E N T I A L BAGHDAD 001514

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E.O. 12958: DECL: 05/08/2016
THIS IS A COMBINED MESSAGE
TAGS: [ECON](#) [EPET](#) [ENRG](#) [EINV](#) [PGOV](#) [PREL](#) [TU](#) [IZ](#)
SUBJECT: KURDISH REGIONAL GOVERNMENT'S VIEWS ON ENERGY

DEVELOPMENT, THE CONSTITUTION, AND COOPERATION WITH BAGHDAD
REF: KIRKUK 0094

CLASSIFIED BY: ECONOMIC MINISTER COUNSELOR THOMAS L. DELARE, FOR REASON
S 1.4 (A) AND (D).

THIS IS A JOINT REO KIRKUK-EMBASSY BAGHDAD MESSAGE.

¶1. (C) SUMMARY: IN A SERIES OF MEETINGS APRIL 22-23,
OFFICIALS FROM THE KURDISH REGIONAL GOVERNMENT (KRG) PRIME
MINISTER'S OFFICE, IRBIL OIL AND GAS ESTABLISHMENT (OGE) AND
THE KRG MINISTRY OF FINANCE CLAIMED THAT COOPERATION WITH
BAGHDAD ON ENERGY WAS "GOOD" AND "IN ACCORDANCE WITH THE
(IRAQI) CONSTITUTION." PM ADVISOR SERBAZ HAWRAMY ADMITTED,
HOWEVER, THAT REVENUE SHARING ARRANGEMENTS AND A MORE
INSTITUTIONALIZED MEANS TO DEVELOP "KURDISH" ENERGY RESERVES
REMAINED TO BE WORKED OUT, ONCE THE TWO KURDISH REGIONAL
GOVERNMENTS HAD MERGED AND THE CENTRAL GOVERNMENT IN BAGHDAD
HAD FORMED. CRITERIA FOR SELECTING INTERNATIONAL PARTNERS TO
DEVELOP THE ENERGY SECTOR, AND KRG HOPES FOR A NEW PIPELINE
THROUGH THE KURDISH REGION (KIRKUK-IRBIL-ZAKHO-CEYHAN) TO
MOVE IRAQ'S NORTHERN OIL EXPORTS, WERE ALSO DISCUSSED.
SEPARATELY, KRG DEPUTY MINISTER OF FINANCE ABDULLAH
ABDULRAHIM SAID THAT THE KRG UNDERSTOOD THAT COORDINATION
WITH BAGHDAD ON LARGE-SCALE OIL PROJECTS WILL BE NECESSARY.
END SUMMARY.

¶2. (SBU) EMBOFFS, ACCCOMPANIED BY REO/KIRKUK AND USAID/IRBIL
OFFICERS, MET APRIL 22 WITH SERBAZ HAWRAMY, SPECIAL ADVISOR
TO KRG PRIME MINISTER NECHERWAN BARZANI, AND MARWAN BADRAHAN
AL-KURDI, CHIEF FINANCIAL OFFICER OF THE IRBIL OIL AND GAS
ESTABLISHMENT (OGE). SERBAZ CONFIRMED THAT THE KRG INTENDS,
ONCE THE TWO KRG ENTITIES OFFICIALLY UNITE, TO MERGE THE TWO
OGES (ONE BASED IN SULIMANIYAH, THE OTHER IN IRBIL) INTO A
SINGLE, KDP-LED MINISTRY OF NATURAL RESOURCES. SERBAZ ALSO
ACKNOWLEDGED THAT HE HIMSELF IS THE MOST LIKELY CANDIDATE TO
ASSUME THE ROLE OF MINISTER IN THE SOON-TO-BE-CREATED
MINISTRY.

COORDINATING "CONSTITUTIONALLY"

¶3. (C) A RUNNING THEME OF THE CONVERSATION AT OGE STRESSED
THE "ONGOING, GOOD COOPERATION" THE KRG MAINTAINED WITH
MINISTRY OF OIL (MOO) OFFICIALS IN BAGHDAD. SERBAZ SAID THAT
HE HAD MET WITH BOTH FORMER MINISTERS OF OIL THAMIR GHADBAN
AND IBRAHIM BAHR AL-'ULUM, ALTHOUGH HE ACKNOWLEDGED THAT HE
HAD HAD NO CONTACT WITH THE CURRENT MINISTER HASHEM
AL-HASHIMI. COOPERATION ALSO OCCURRED AT OPERATIONAL LEVELS,
WITH DEPUTY MINISTER OF OIL MOTASSAM HASSAN (AN ETHNIC KURD)
ACTING AS THE KRG'S MAIN POC AT MOO. THE KRG, SERBAZ
CONTINUED, WAS VERY AWARE THAT THEY NEEDED TO COORDINATE WITH
BAGHDAD UNTIL THE NEW IRAQI CONSTITUTION WAS IN PLACE. SINCE
THAT HAD NOW OCCURRED, THE KRG CONSIDERED THAT OIL ISSUES
WERE NOW GOVERNED BY WHAT SERBAZ CALLED "CONSTITUTIONAL LAW,"
ADDING THAT THE KURDS ARE "FOLLOWING THE CONSTITUTION
EXACTLY."

¶4. (C) IN RESPONSE TO OUR REQUEST FOR DETAILS, SERBAZ
STRESSED THE UNDERLYING CONSTITUTIONAL PREMISE OF ALL KRG
ACTIONS IS THAT IRAQ'S OIL BELONGS TO ALL OF THE IRAQI
PEOPLE. NEW AREAS FALL UNDER REGIONAL CONTROL, SERBAZ

CONTINUED, AND CURRENTLY PRODUCING FIELDS WILL CONTINUE TO BE RUN BY THE CENTRAL GOVERNMENT IN COORDINATION WITH THE KRG. (COMMENT: FROM SERBAZ'S PRESENTATION, IT IS CLEAR HE BELIEVES THAT THE KURDISH DEFINITION OF "NEW FIELDS" ENCOMPASSES ALL FIELDS, WHETHER THEY BE KNOWN, PARTIALLY EXPLORER, OR NEWLY DISCOVERED, SO LONG AS THEY ARE NOT PRODUCING. END COMMENT).

ALL CONTRACTS SIGNED BETWEEN 1992 AND THE RATIFICATION OF THE NEW IRAQI CONSTITUTION WILL BE RATIFIED, AS PER THE ARTICLE 141 OF THE CONSTITUTION. THE KRG IS HOPING FOR A PROFESSIONAL, TECHNICALLY COMPETENT MINISTER OF OIL, SERBAZ SAID, ONE THAT IS NOT CLOSELY TIED TO ANY "RELIGIOUS GROUP OR PARTY." HE URGED THE USG TO PRESS THE GOI TO IMPOSE THE SAME STANDARD FOR THE MINISTER OF OIL AS WE ARE SEEKING FOR OTHER SENSITIVE MINISTRIES SUCH AS INTERIOR. CALLING ALL CURRENT MOO STAFF BA'ATHISTS, SERBAZ SAID THE GOI SHOULD "CLEAR OUT THE MINISTRY AND START OVER."

¶15. (C) THE KURDS HAVE ALSO SUGGESTED THAT MOO FORM A SMALL COMMITTEE, INCLUDING TECHNICAL EXPERTS FROM WITHIN OGE, FOREIGN ADVISORS, AND ONE REPRESENTATIVE FROM MOO (BAGHDAD) TO COORDINATE KURDISH OIL AND GAS ACTIVITIES (NOTE: THIS APPROACH WAS DISCUSSED IN A SEPARATE MEETING APRIL 19 WITH MOO DEPUTY MINISTER MOTASSAM HASSAN, WHO SAID THAT MINISTER OF OIL AL-HASHIMI FAVORED THIS APPROACH. END NOTE).

¶16. (C) IN A SEPARATE MEETING APRIL 22, KRG DIRECTOR GENERAL FOR TRADE AZIZ ABDO ECHOED THE SENTIMENTS AT OGE.

***** START OF SECTION 2 *****

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SUBJECT: KURDISH REGIONAL GOVERNMENT'S VIEWS ON ENERGY DEVELOPMENT, THE CONSTITUTION, AND COOPERATION WITH BAGHDAD EXPLOITATION OF THE KURDISTAN REGION'S OIL, GAS AND MINERAL RESOURCES ARE TREATED DIFFERENTLY THAN OTHER TYPES OF INVESTMENT, HE SAID, SINCE THE GOVERNMENT AND "THE IRAQI PEOPLE," RATHER THAN INVESTORS OR TRIBES, OWN THE RESOURCES UNDER THE GROUND. ABDO SAID HE FELT THERE WERE NO "SERIOUS PROBLEMS" WORKING WITH BAGHDAD, BECAUSE THERE WERE AS YET NO REVENUES. THE CONSTITUTION PROVIDED AN OVERALL PLAN FOR REVENUE SHARING, BUT ONCE THE CENTRAL AND REGIONAL GOVERNMENTS WERE SET UP, HE EXPECTED ADEQUATE, MORE SPECIFIC LAWS WOULD FOLLOW. KRG DEPUTY MINISTER OF FINANCE ABDULLAH ABDULRAHIM ADDED THAT, SINCE THE FALL OF SADDAM HUSSEIN, THE KRG HAD FOLLOWED ITS OWN PLANS AND POLICIES. NOW, HOWEVER, THE KRG RECOGNIZED THE NEED FOR COORDINATION -- ESPECIALLY ON OIL PROJECTS -- THROUGH THE KRG AND BAGHDAD PARLIAMENTS. ABDULRAHIM MENTIONED OPEC AND EXPORTS THROUGH NEIGHBORING COUNTRIES AS TWO SPECIFIC EXAMPLES. HE CALLED IT A "SENSITIVE POINT" THAT SOMO DID NOT HAVE A REPRESENTATIVE FROM THE KRG.

REVENUE SHARING PLANS "UNDER DEVELOPMENT"

¶17. (C) ASKED ABOUT THE PLAN FOR HYDROCARBON REVENUE SHARING BETWEEN THE KRG AND BAGHDAD, CFO MARWAN AL-KURDI SAID THIS WOULD ONLY BE DEVELOPED AFTER A GOVERNMENT WAS FORMED IN BAGHDAD AND THE KRG ADMINISTRATION HAS SUCCESSFULLY MERGED. THE KRG HAS NO SPECIFIC PROPOSALS IN MIND, MARWAN SAID, BEYOND WHAT WAS ALREADY WRITTEN IN THE CONSTITUTION - WHICH, HE ADMITTED, "LACKED DETAILS." PRESSED FOR A "FOR INSTANCE," MARWAN SAID THAT AN ARRANGEMENT MIGHT BE CRAFTED WHEREBY THE KRG KEPT A PERCENTAGE OF THE REVENUE FROM "ITS" OIL, REMITTING THE REMAINDER OF THE INCOME TO BAGHDAD. THIS SCENARIO WOULD NOT AFFECT THE 17% SHARE OF IRAQ'S NATIONAL BUDGET TO WHICH THE KRG IS ALREADY ENTITLED.

GETTING STARTED IN KURDISTAN

¶18. (SBU) MARWAN DESCRIBED THE PROCESS BY WHICH THE KRG CONNECTS WITH INTERESTED FIRMS. OGE FIRST REVIEWS A COMPANY'S INTENTIONS AS EXPRESSED IN A LETTER OF INTEREST, AFTER WHICH AN INVITATION TO VISIT THE KRG IS EXTENDED ONCE OGE DETERMINES THAT THE COMPANY HAS THE REQUISITE TECHNOLOGY, "KNOW-HOW," AND FINANCIAL CAPABILITY. MARWAN SAID THE KRG DEMANDS THAT COMPANIES HAVE ACCESS TO SUFFICIENT CAPITAL AND ARE ABLE TO MOVE FORWARD QUICKLY.

¶19. (SBU) ONCE OGE DETERMINES THAT A COMPANY MEETS THE ABOVE STANDARDS AND ALL DUE DILIGENCE IS COMPLETED, AN MOU IS PREPARED USUALLY GRANTING A NEW PARTNER CONTROL OVER AN AREA

OF INTEREST DESIGNATED: 300-400 SQUARE KILOMETERS. ON THE KRG SIDE, MARWAN SAID THE PSAS ARE DONE IN-HOUSE USING PROFESSIONAL, "OIL-EXPERIENCED" PEOPLE. A JOINT COORDINATING COMMITTEE IS FORMED THAT INCLUDES TWO MEMBERS EACH FROM OGE, MOO IN BAGHDAD AND TWO FROM THE PARTNER COMPANY. IN KURDISTAN, A JOINT WORK COMMITTEE IS THEN ESTABLISHED, CONSISTING OF TWO OGE MEMBERS AND TWO MEMBERS FROM THE PARTNER COMPANY (COMMENT: WE BELIEVE IT IS UPON THIS SECOND COMMITTEE'S WORK, WITH NO BAGHDAD MEMBERSHIP, UPON WHICH POTENTIAL PSA ARE DEVELOPED. END COMMENT). BASED ON PERFORMANCE, ADJACENT AREAS MAY BE OFFERED FOR STUDY.

KURDISH PIPELINE BETTER FOR EXPORTS

¶10. (C) SERBAZ RAISED KRG INTEREST IN A NEW EXPORT PIPELINE RUNNING KIRKUK-IRBIL-ZAHKO-CEYHAN. HE MAINTAINED THAT SADDAM BUILT THE CURRENT 40" EXPORT LINE (RUNNING FROM KIRKUK-BAYJI AND THEN ACROSS THE TURKISH BORDER WEST OF DOHUK) TO AVOID KURDISTAN EVEN THOUGH THE ROUTE WOULD BE MORE DIRECT. ASSURING US THAT THIS KURDISH PIPELINE WOULD ALSO MORE SECURE, SERBAZ SAID THAT MOO OFFICIALS IN BAGHDAD HAD REACTED FAVORABLY TO THE IDEA (COMMENT: WE HAVE NOT HEARD THIS IDEA BROACHED BY MOO CONTACTS IN BAGHDAD. END COMMENT). SERBAZ AFFIRMED THAT THE KRG WAS IN DIRECT DISCUSSIONS WITH TURKEY, IN ADVANCE OF ANY DISCUSSIONS BETWEEN IRAQ AND TURKEY.

¶11. (C) COMMENT: IT IS CLEAR THAT OUR KRG INTERLOCUTORS FEEL THAT THEIR REGION CAN BECOME THE ENTRY POINT AND CATALYST FOR ENERGY INVESTMENT AND EVEN STABILITY IN IRAQ. WHILE THE OFFICIALS WITH WHOM WE SPOKE GAVE THE NOD TO COOPERATION WITH BAGHDAD ON ENERGY ISSUES, THE REALITY - AT LEAST FROM BAGHDAD - LOOKS VERY DIFFERENT. MOO OFFICIALS IN BAGHDAD CLAIM THEY ARE PRESENTED WITH WHAT ARE, IN EFFECT, FAIT ACCOMPLIS BY THE KURDS (SEPTEL).

KHALILZAD